

FDIC State Profile

Spring 2005

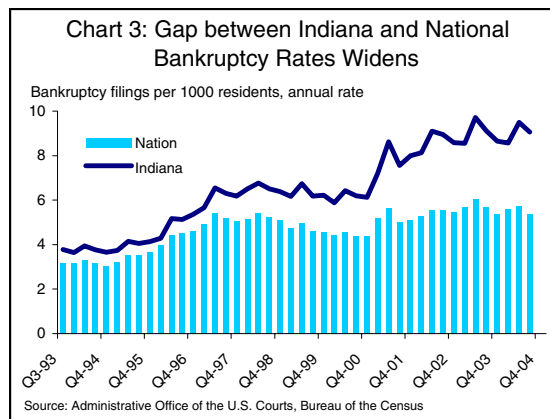
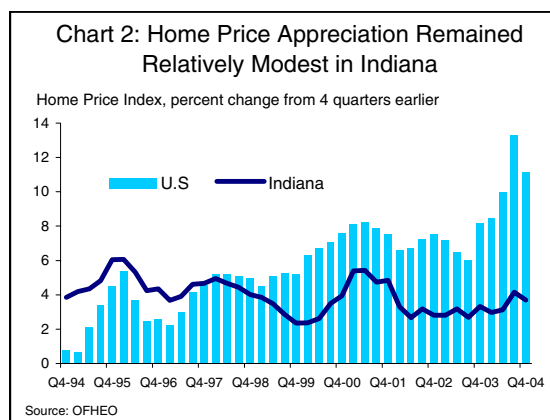
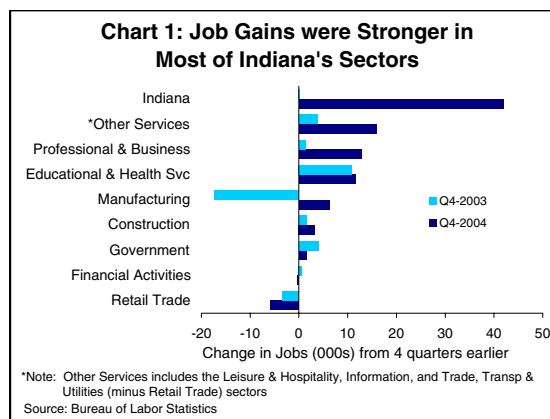
Indiana

Outlook for Indiana brightens.

- Last year marked the first period since 1999 that Indiana posted four consecutive quarters of year-over-year job growth. The state added 41,900 jobs as nonfarm payrolls grew 1.4 percent in the year ending fourth quarter 2004.
- Most major sectors in Indiana experienced employment gains (See Chart 1). Retail trade continued to lose jobs, yet the rate of loss slowed to half that of 2003. Most notably, the manufacturing sector, which employs 19.3 percent of the state's workers, may be stabilizing. Modest hiring in 2004 by manufacturers contrasted with the considerable job losses since mid-2000.
- The **South Bend-Mishawaka, Lafayette, and Indianapolis** metropolitan areas each posted job growth greater than 1.4 percent. Hiring by educational institutions and health-service firms generated many of the new jobs in these cities. Total nonfarm jobs in **Elkhart-Goshen** grew 8.8 percent in the year ending fourth quarter 2004, with manufacturing accounting for 60 percent of the net new jobs created.
- **Muncie** experienced a 3.3 percent decline in jobs from fourth quarter 2003 to fourth quarter 2004, the greatest loss among all metropolitan areas in the state. On a brighter note, Magna Drivetrain of America, Inc. announced a two-phase investment plan to build a new plant, bringing more than 400 new jobs and an annual payroll of more than \$16.5 million dollars to this community by 2007.
- The office vacancy rate for the Indianapolis metropolitan area was 19.9 percent in the fourth quarter, down considerably from the historical peak of 22.8 percent set in the first quarter of 1994. The vacancy rate is among the lowest for Midwest cities and is among a select few experiencing consistent declines.

Indiana households may be showing some signs of recovery.

- Personal income rose in tandem with labor market improvements. Starting in fourth quarter 2003, personal income posted year-over-year growth in excess of 5 percent, the strongest gain in four years.



State Profile

- Home price appreciation picked up slightly in 2004; prices in fourth quarter were 3.7 percent higher than in late 2003 (See Chart 2). Indiana's pace continues to rank among the lowest nationwide but is not dramatically different from its neighbors, Ohio and Michigan. In general, the Great Lakes states have not seen the rapid home price escalation seen in some parts of the country.
- The number of bankruptcy filings in 2004 may rival the record breaking 55,100 who filed in 2003. Slightly more than 14,000 individuals filed for bankruptcy in third quarter 2004, marginally more than in third quarter 2003. However, improving labor markets and higher personal income are starting to slow the pace of growth in filings. Also, the gap between the Indiana and national rates per capita, which widened in the 2001 recession, may be stabilizing (See Chart 3).

Community institutions reported lower profitability amid higher interest rates.

- Net interest margins among Indiana community institutions fell by nine basis points from 2003 to 3.55 percent. Lower asset yields offset lower cost of funds, after declining year-over-year throughout most of 2004.
- Despite reduced provision and tax expense, return on assets for Indiana community institutions declined. Lower security gains and noninterest income contributed to most of the decline in profitability in 2004 (See Table 1).
- Community institutions increasingly turned to noncore funding products, such as brokered deposits and large time deposits, to fund asset growth. Core funding relative to assets declined 150 basis points from 2003 to 63.5 percent in 2004.
- Funding costs for all insured institutions increased in the latter half of 2004 as the federal funds rate rose to its highest level since 2001, suggesting that an uptick in short-term interest rates likely will contribute to increased funding costs in future quarters (See Chart 4).

Asset quality showed mixed developments across loan categories.

- Total assets among community institutions increased by 4.8 percent during 2004, led by strong loan growth in the commercial real estate and home equity loan categories.
- Median delinquency rates among community institutions in 2004 moved up nine basis points to 2.23 percent. Some loan categories saw improvement in past-due rates; however, delinquency rates in nonresidential real estate, home equity, and commercial and industrial loan categories deteriorated year-over-year (See Chart 5).

- Some banks in the Region have taken writedowns on earnings from impairment charges related to holdings of preferred stock from Fannie Mae and Freddie Mac (GSE holdings). Recent accounting problems at Fannie Mae and Freddie Mac have reduced the market value of these securities.

Table 1: Lower Noninterest Income and Security Gains Reduced Profitability

Income statement contribution (as a percentage of average assets)			
	Calendar year		Percentage Point Change
	2003	2004	
Net Interest Income	3.34	3.25	0.00
Noninterest Income	0.97	0.75	-0.22
Noninterest Expense	-2.72	-2.65	0.07
Provision Expense	-0.30	-0.19	0.11
Security Gains & Losses	0.12	0.02	-0.10
Income Taxes	-0.44	-0.35	0.09
Net Income (ROA)	0.97	0.83	-0.14

Source: FDIC. Indiana Community Banks and Thrifts.

Chart 4: Higher Fed Funds Rate Will Likely Lead to Higher Cost of Funds in Indiana

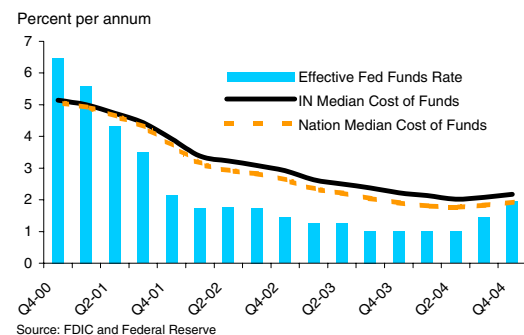
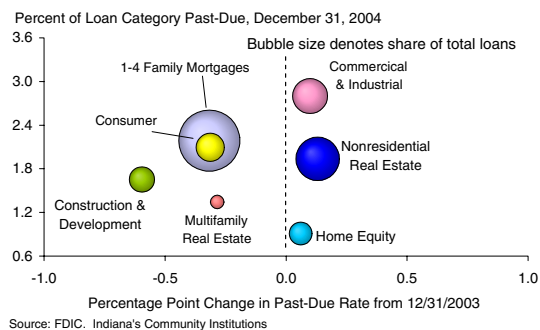


Chart 5: Past-Due Rates Showed Mixed Developments Across Loan Categories



Indiana at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.4%	0.0%	0.0%	-2.5%	-0.5%
Manufacturing (20%)	1.1%	-2.9%	-1.4%	-9.0%	-2.5%
Other (non-manufacturing) Goods-Producing (5%)	2.0%	1.0%	-2.6%	2.7%	-4.1%
Private Service-Producing (61%)	1.7%	0.7%	0.1%	-1.6%	0.6%
Government (15%)	0.3%	0.9%	2.6%	1.6%	-0.2%
Unemployment Rate (% of labor force)	5.2	5.3	5.0	5.0	2.9

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	5.3%	2.8%	2.1%	4.3%
Single-Family Home Permits	1.9%	-1.3%	11.3%	5.7%	-14.8%
Multifamily Building Permits	8.6%	-28.9%	30.3%	49.3%	-41.1%
Existing Home Sales	9.1%	-1.5%	6.4%	7.7%	0.8%
Home Price Index	3.7%	3.3%	2.8%	4.8%	3.9%
Bankruptcy Filings per 1000 people (quarterly level)	1.96	2.16	2.15	2.00	1.53

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	197	206	210	217	219
Total Assets (in millions)	102,752	117,429	128,705	127,749	101,484
New Institutions (# < 3 years)	2	4	7	10	10
Subchapter S Institutions	15	16	14	13	12

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.23	2.13	2.48	2.34	1.90
ALLL/Total Loans (median %)	1.11	1.17	1.17	1.12	1.10
ALLL/Noncurrent Loans (median multiple)	1.40	1.68	1.30	1.27	1.72
Net Loan Losses / Total Loans (median %)	0.14	0.16	0.16	0.11	0.09

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.51	9.59	9.17	9.38	9.24
Return on Assets (median %)	0.81	0.90	0.95	0.91	0.89
Pretax Return on Assets (median %)	1.12	1.26	1.35	1.29	1.30
Net Interest Margin (median %)	3.66	3.74	3.93	3.88	3.95
Yield on Earning Assets (median %)	5.57	5.86	6.66	7.64	8.05
Cost of Funding Earning Assets (median %)	1.79	2.09	2.69	3.93	4.23
Provisions to Avg. Assets (median %)	0.13	0.16	0.17	0.14	0.11
Noninterest Income to Avg. Assets (median %)	0.70	0.73	0.69	0.67	0.57
Overhead to Avg. Assets (median %)	2.78	2.76	2.74	2.72	2.70

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	69.8	68.2	68.3	69.3	70.9
Noncore Funding to Assets (median %)	22.4	21.9	21.1	21.3	20.7
Long-term Assets to Assets (median %, call filers)	22.0	22.7	22.3	22.3	21.7
Brokered Deposits (number of institutions)	64	52	46	41	34
Brokered Deposits to Assets (median % for those above)	4.5	3.9	3.0	2.3	2.6

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	63.9	63.0	63.5	62.4	63.2
Commercial Real Estate	161.8	147.8	141.9	127.7	116.3
Construction & Development	26.4	21.6	21.3	19.5	14.6
Multifamily Residential Real Estate	5.3	4.7	4.3	4.5	4.0
Nonresidential Real Estate	121.0	113.6	94.9	85.1	79.1
Residential Real Estate	300.9	308.2	324.5	338.2	328.2
Consumer	41.2	47.6	56.0	62.8	74.2
Agriculture	75.9	67.2	73.2	77.6	86.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Indianapolis, IN	54	23,609	< \$250 mil.	133 (67.5%)
Evansville, IN-KY	20	4,851	\$250 mil. to \$1 bil.	50 (25.4%)
Fort Wayne, IN	23	4,521	\$1 bil. to \$10 bil.	13 (6.6%)
South Bend-Mishawaka, IN-MI	15	3,215	> \$10 bil.	1 (0.5%)
Columbus, IN	8	2,404		